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MONTANA ENERGY TAX BENEFITS

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A guide to state tax incentives for conservation and renewable energy

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JULY 1989
MONTANA DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

This booklet contains summaries of energy-related tax benefits available in Montana. It was prepared by the Energy Division of the Montana Department of Natural Resources and Conservation as a general introduction to state tax incentives for conservation and renewable energy. However, the responsibility for determining tax liability rests with the taxing authority, the Montana Department of Revenue. If you have questions, contact the Department of Revenue, Sam W. Mitchell Building, Helena, MT 59620, (406) 444-2981.

INCOME TAX CREDIT FOR ENERGY CONSERVATION

Montana taxpayers can qualify for a 5 percent tax credit, up to a maximum of $150, for energy conservation improvements installed in residential buildings, and a 5 percent credit, up to a maximum of $300, for commercial, industrial, or agricultural buildings [Section 15-32-109, MCA].

The credit is equal to 5 percent of the costs of materials and installation of an energy conservation project, minus the value of public or private grants received. The entire cost of energy conservation work done in existing structures may be used to determine the credit, but in new construction only the portion of the work that exceeds state energy conservation standards may be used.

A state income tax credit is subtracted directly from the state income tax owed. The tax credit may be taken only for the year the installation is completed and only for buildings located in Montana.

Energy conservation installations qualifying for the income tax credit include:

- insulation added to floors, walls, ceilings, and roofs in existing buildings;
- insulation of floors, walls, ceilings, and roofs in new buildings in excess of established standards;
- insulation of pipes and ducts located in a nonheated area;
- insulation of water heaters and tanks;
- special insulating siding with a certified insulating factor substantially greater than that of normal siding;
- storm doors and storm windows;
- triple-glazed and low-emissivity windows;
- insulated exterior doors;
- caulking and weatherstripping;
- hot-water flow restrictors;
- waste heat recovery devices;
- glass fireplace doors;
- exhaust fans used to reduce air conditioning requirements;
- replacement of incandescent light fixtures with a more efficient type;
- lighting controls with cut-off switches to permit selective use of lights; and
- clock-regulated thermostats.

Wood stoves, fireplaces, and fireplace modifications (with the exception of glass fireplace doors) are not eligible for these income tax credits or for property tax exemption; however, some clean-burning wood stoves qualify for the wood stove tar credits described at the end of this booklet. Those claiming the state tax credit for energy conservation must file Form 2C with their Montana income tax returns.

INCOME TAX CREDIT FOR RENEWABLE ENERGY

Individuals who install renewable energy systems (ones that do not use fossil fuels) in their principal residences in Montana before January 1, 1993, may claim a credit to reduce their state income tax. They can earn credit for systems installed since December 31, 1976, if they have not already claimed credit. The maximum credit is $125—5 percent of the first $1,000 of the system cost, plus 2 1/2 percent of the next $3,000. A state income tax credit is subtracted directly from the state income tax owed.

The cost of both materials and installation may be used to determine the amount of the tax credit, but the value of any public or private grants received for the project must be subtracted. In any one year, the credit claimed may not be greater than the state income tax owed. However, any unused portion of the credit may be carried over and applied against state tax liability for the next four taxable years.

Qualifying renewable energy systems use nonfossil fuel sources, such as solar energy, wind, solid wastes, or the decomposition of organic wastes for energy generation. Also included are systems for generating electricity from wood wastes, geothermal energy, and hydropower from impoundments no larger than 20 acres. The 1979 legislature made passive solar systems eligible for both the income tax credit and the property tax exemption [Section 15-32-201, MCA]. However, these tax benefits are limited to the portion of the passive system specifically designated to collect, store, and distribute solar energy, such as additional south-facing windows or heat storage mass. Heat pumps, wood stoves, and fireplaces are not eligible for tax benefits. To claim this credit, file Form 2B with your Montana income tax return.

WOOD STOVE TAX CREDITS

The state has provided incentives for residential wood burners to produce less air pollution. In 1985 the state legislature passed a law allowing tax credits for certain wood-burning devices that emit less than 6 grams per hour of particulates when tested under the State of Oregon's procedures. This tax credit is essentially a rebate for efficient wood stoves purchased after January 1, 1985, and amounts to 10 percent of the first $2,000 of the purchase price. Five percent of the next $3,000 will also be rebated against your taxes. This means you would save $100 on the purchase of a new energy-efficient stove costing $1,000 [15-32-102, 15-32-201, and 15-32-203, MCA]. However, not all stoves advertised as "energy efficient" qualify for the rebate. For a list of stoves qualifying for the rebate, contact the Air Quality Bureau of the Montana Department of Health and Environmental Sciences, Cogswell Building, Helena, MT 59620, 444-3454. Use Form 2B to claim this credit on your Montana income taxes. This tax credit expires December 31, 1992.

PROPERTY TAX EXEMPTION FOR RENEWABLE ENERGY

An individual or firm installing a renewable energy system in any kind of building in Montana after January 1, 1979, is eligible for a 10-year property tax exemption based on the value of the system. For a single family residential dwelling, including a mobile home, property taxes are exempted on a maximum of $20,000 of the system's appraised value. Up to $100,000 of the system's value is exempt if installed in a multifamily residential dwelling or in a nonresidential structure [Section 15-6-201, MCA].

To be eligible for the property tax exemption, a renewable energy system must meet the following criteria.

- The system must be able to generate energy by use of "recognized nonfossil" means.
- The system's components must be unique to the system and not standard components of the structure for which it provides energy. (Standard components of conventional structures are those that are generally necessary for structural support, shelter, ventilation, temperature control, lighting, or maintenance of the occupant's regular lifestyle.)
- The predominant use of the system must be energy generation.

The predominant use of the system will be determined as other than energy generation if it possesses any two of the following characteristics.

- It is a structure that will be occupied more than four hours in a day.
- It is a structure that serves as a regularly used entry way to the building for which it provides energy.
- It is a structure that receives heat from a source other than the energy it generates.
- It is a structure that contains more space than is reasonably necessary for energy collection, generation, and distribution.
- It is part of the living area of the structure for which it provides energy.

The forms needed in applying for the property tax exemption are available through the county assessors' offices. In order to receive the full benefit of the property tax exemption, an application must be filed before April 2 following the date of completion of construction of the system.

For more information about the property tax exemption law and the rules adopted, contact either your county assessor or the Montana Department of Revenue.

TAX CREDIT FOR COMMERCIAL INVESTMENTS IN WIND SYSTEMS

Individuals and corporations investing $5,000 or more in capital expenditures for a commercial wind-powered system may claim a credit to reduce their state income or corporate license tax [Section 15-32-402, MCA].

They can earn a credit for investments made in eligible equipment placed in service since December 31, 1982. The tax credit that may be taken is 35 percent of taxable or net income produced only by the following:

- manufacturing plants located in Montana that produce wind energy generating equipment;
- new or expanding businesses that purchase wind-generated electricity on a direct sale contract to meet their power needs; or
- the wind energy generation equipment for which the credit is being claimed.

The credit may not be claimed against income from any other sources. If this energy credit is claimed, no other state energy tax incentive or property tax reduction may be claimed for the investment.

The eligible costs that may be used to determine the amount of the tax credit include expenditures associated with the purchase, installation, or upgrading of generating equipment, safety devices and storage components, and transmission lines. The value of any public or private grants received for the project must be subtracted from the eligible costs.

A tax credit greater than the tax owed cannot be claimed in any one year. However, any unused portion of the credit may be carried over and used within seven years after the equipment was installed.

ALCOHOL TAX INCENTIVE

Individuals or businesses in Montana distilling anhydrous ethanol from Montana-

grown agricultural products for use as gasohol can take advantage of a 30 cents per gallon tax incentive. Established by the 1983 legislature [Section 15-70-522, MCA], the incentive continues until 1993.

This payment will be reduced by the 15 cents per gallon gasoline license tax imposed on alcohol produced for blending and sale as gasohol. The payment would be reduced further if the amount of gasohol sold in any six-month period exceeds a specified share of the total nonaviation gasoline and gasohol sold for that period.

Before beginning to produce or distribute alcohol in Montana, an individual must purchase a gasoline distributor's license from the state Department of Revenue. In order to qualify for payment of this tax incentive, you must submit a form identifying the amount of alcohol sold for use as gasohol and provide records identifyhing the amount sold and the purchases.

GASOHOL FACILITY PROPERTY TAX REDUCTION

Real and personal property used primarily in the production of gasohol in Montana is eligible for property tax reductions. Tax reductions are allowed during the construction of a gasohol facility and during its first three years of operation [Section 15-6-135, MCA]. During this time, eligible gasohol facilities are taxed at 3 percent of their market value, as is all new industrial property. Unlike other new industrial property, however, the tax reduction for gasohol plants also applies to new facilities built through expansion or merger of existing facilities. After three years of operation, the facility is taxed at the usual 11 percent rate for such property.

FOR MORE INFORMATION

For more information on Montana tax credits, contact:

The Department of Revenue
Sam W. Mitchell Building
Helena, MT 59620
(406) 444-2981

For additional material on energy conservation and renewable energy, contact:

Department of Natural Resources
and Conservation
Energy Division
1520 East Sixth Avenue
Helena, Montana 59620
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